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Classified By: Classified by CDA Alex Karagiannis for Reasons 1.4 (B) and (D)

1. (C) SUMMARY: The ruling Bulgarian Socialist Party (BSP), hurt by a surprisingly poor showing in May's European Parliament elections and a high-profile corruption scandal, is struggling to close ranks ahead of October municipal elections. PM Stanishev has a two fold party mission: assert his leadership and re-energize his party; and maintain cohesion by balancing two powerful BSP figures - tainted former Economy and Energy Minister Ovcharov and equally controversial Interior Minister Petkov. As a result of the PM's maneuvers, both Petkov and Ovcharov were stripped of their deputy party chairmanships. Ovcharov was also moved to a sinecure post in parliament, while Petkov is fighting a rearguard action to avoid losing control of the domestic intelligence service, which the PM wants to bring under his direct control. Meanwhile, support for the Socialists continues to erode, displaced in popularity by Sofia Mayor Borisov's new populist party, GERB. With coalition partner NMSS in single digits, and the BSP suffering internal fissures, the October elections are shaping up as a key test for government longevity if not stability. Odds-makers still believe the government can muddle through a full term in office but it may be more brittle and preservation-minded in the face of a strong GERB showing. END SUMMARY

2. (C) The dog days of August have been anything but quiet in terms of behind the scenes political theater. Following May Euro-parliamentary elections, internal turbulence has built within several parties. The main traditional center-right groups are collectively in free-fall with poll numbers in the single digits. Former President Stoyanov resigned leadership in the Union of Democratic Forces (UDF), replaced by Plamen Yoroukov, a businessman and novice in politics. Egotistical former Prime Minister Kostov orchestrated a brief withdrawal and then return to the Democrats for Strong Bulgaria (DSB) leadership. Neither maneuver had any appreciable impact among voters. Meanwhile, ex-King Simeon's NMSS (now in the process of renaming itself but keeping the same initials) continues its slow sinking. Though blessed with powerful and capable government ministers, NMSS, in the ex-king, has an uninspired and underwhelming leader; the party is flat and listless. The ethnically-Turkish Movement for Rights and Freedoms (MRF) retains its core 9-15 percent support and remains essential to coalition cohesion. But it is a provincial, not national party; and its reputation for corruption makes it a party of last resort in terms of electoral alliances in the run-up to October municipal elections. Meanwhile, vicious infighting within the BSP, heretofore the largest and most powerful party in Bulgaria, has taken center political stage.

13. (C) PM Sergei Stanishev's BSP was wounded by worse-than-expected results in the May 20 European Parliament elections and in a high-profile corruption scandal centered on one of BSP's key figures, former Economy and Energy Minister Roumen Ovcharov (refs A and B). In early June, Stanishev forced Ovcharov to resign due to his involvement in the scandal and dismissed the entire BSP leadership, citing poor election results (ref C). Stanishev called an extraordinary party congress June 16, which endorsed the government's policies with an overwhelming majority, despite hard-line internal opposition. Since then, the PM has further moved to consolidate his BSP leadership and re-energize the party for October 28 local elections. At a June 30 party meeting, the PM stunned colleagues by introducing a new party structure. He abolished the deputy chairmanship, thus effectively dismissing all five party deputies and replacing them with six party secretaries who have purely organizational functions. As a result of this administrative maneuver, Stanishev limited the power of two key BSP figures -- ex-minister Ovcharov, and the equally influential and controversial Minister of Interior Roumen Petkov. The two, who both served as Stanishev's deputies in the BSP, passionately detest each other. Each has powerful and loyal party apparatus; BSP stability has largely hinged on the balance of power between their rival lobbies.

14. (C) BSP insiders tell us that with his June move, Stanishev clipped Petkov's and Ovcharov's wings and asserted his leadership while preserving the balance within the party. "Removing the deputy chair's posts was a sophisticated and

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painless way of getting rid of Ovcharov and taming Petkov without waging an open battle, as the last thing the party needs now is scandals and mutual accusations," one of Stanishev's aides told us. Both Ovcharov and Petkov, however, stayed on as members of the BSP's new 21-member Executive Bureau. BSP insiders confide that the PM kept them on because he was unwilling to make any potentially destabilizing changes ahead of local elections. Officials close to President Georgi Parvanov, the former Socialist party chairman who played a key role in assembling the three-party coalition, also retained their seats in the BSP leadership. Stanishev reserved the six secretary positions for less controversial officials loyal to him. BSP insiders tell us that the current Socialist Party Executive Bureau would most likely be a temporary solution. The PM is likely to make more significant changes in the BSP leadership after the local elections or after a regular party congress next year.

TAINTED OVCHAROV: DOWN BUT NOT OUT

15. (C) Following his official dismissal from the government July 18, Ovcharov did not spend much time out in the cold (ref D). As a member of the Socialist parliamentary group, he was promptly elected chairman of parliament's budget and finance committee (effectively overseeing his former ministry). Though the position ordinarily carries more prestige than actual power, he is likely to exercise considerable influence. His predecessor as chair, Petar Dimitrov, replaced Ovcharov as the new Minister of Economy and Energy, but is an energy newcomer (and lacks details of all the deals Ovcharov struck). Energy industry insiders tell us that Ovcharov still carries more weight in the Ministry of Energy than does Dimitrov (ref E). Ovcharov has salted the ministry with his people in senior positions, and friends and supporters who won lucrative contracts remain loyal to him.

16. (C) Ovcharov's parliamentary appointment, green-lighted by

the PM, raised eyebrows among the public which wondered why an official dogged by allegations of corruption and abuse of power would be awarded such a post. Furthermore Ovcharov, largely perceived as overly confident and arrogant, was an open rival to Stanishev for the posts of both BSP chairman and prime minister. During the June 2005 election campaign, he was one of the few BSP officials who openly questioned Stanishev's nomination as PM, giving extensive interviews about the young party leader's "lack of competence and experience." Thus, outside observers thought the PM would gladly use the opportunity presented by the major graft scandal to sideline his rival entirely, and in fact one of the PM's aides told us he was initially tempted to do so.

17. (C) Stanishev's aides, however, advised him that he did not need to stoke a powerful enemy (Ovcharov heads BSP's Sofia branch). In early June, Ovcharov reportedly threatened Stanishev that if kicked out of politics and left in disgrace, he would respond with public statements against BSP's partnership with the much reviled (in both BSP and the public at large) MRF. Consequently, BSP insiders tell us, the PM agreed to grant Ovcharov a "face-saving exit" from the corruption scandal, as long as the former minister does not rock the party boat.

PETKOV STRUGGLES TO RETAIN POWERS

18. (C) Another reason for the PM to keep Ovcharov on the scene, according to some BSP insiders, was that his possible ouster could have increased disproportionately the influence of Interior Minister Petkov. Petkov's loyalty, political acumen and his pragmatic, down-to-earth approach, coupled with close ties with President Parvanov and the MRF, have helped him accumulate significant authority in the BSP. Unlike Ovcharov, Petkov has been -- up to now -- generally considered an ally of rather than a rival to the PM both in the BSP and the government. Previously dubbed "the Regent" because of his close ties with the less-experienced Stanishev, Petkov retains strong influence in the party's local branches. Relations between Stanishev and Petkov, however, have significantly deteriorated since May when the PM announced a plan to bring the domestic intelligence service directly under the PM's office as part of a new National Agency for Security (NAS), thus curbing Petkov's powers. Stanishev, who says the plan reflects the government's priority for strengthening the rule of law post-EU accession, has already won the support of the junior coalition partners. (Note: On balance creation of the NAS is the right thing to further professionalize the service and have accountability.)

19. (C) Although generally backed by politicians and security

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experts, the NAS was quickly dubbed the "Agency for Party Security" as critics grouched that its creation reflected primarily the PM's efforts to rein in Petkov within the BSP. BSP politicians tell us the PM is wary of persistent speculation that Petkov is using information from the domestic intelligence service for political influence. A Socialist MP familiar with the matter told us Stanishev believed the separation of the domestic intelligence service from the MOI and its inclusion in the NAS would prevent the use of information collected with specialized surveillance techniques for political purposes. Although the technical aspect of the surveillance will still be handled by the MOI, the collected information will not go to the Interior Minister but straight to the NAS where it would be used according to strict regulations, the MP said. Local media have also commented that the significance of the information gathered by the domestic intelligence service has turned Petkov into a separate center of power. Indicative of the paranoia is a recent rumor among local politicians that the PM feared that he himself might be bugged. According to the widespread rumor, "the first thing the PM does when having a

private conversation is to remove the battery of his mobile."

¶10. (C) Stanishev and his supporters have done a poor job making the public case for the new agency. Petkov has led a spirited internal fight against it and he and his loyalists have trashed it publicly. Petkov warned local media that removing the domestic intelligence service from the MOI would be a "severe mistake" and that "one cannot automatically merge secret services." Tension rose following an incident on the eve of the BSP's June 16 congress. According to multiple insider sources, Petkov showed up uninvited at the PM's office to protest against the NAS, making threats to Stanishev and noting that he still needed Petkov's support in the party. The PM reportedly said Petkov was drunk and "when he is drunk he usually speaks the truth." While this incident largely stayed out of the public eye (snippets are now leaking out), the press reported an open confrontation between Petkov and the PM during a July 13 meeting of the ruling Coalition Council. The formal meeting, attended by the three party leaders and high-ranking party officials, was expected to focus on the forthcoming government reshuffle (ref D). As corroborated by insiders and reported in the press, Petkov surprisingly stole the stage and confronted the PM regarding his plans about the NAS. Participants watched stunned as the meeting turned into a personal exchange between Stanishev and Petkov as the latter kept asking the PM to explain, "why he wanted to create a second Ministry of Interior."

¶11. (C) Petkov's internal party opponents were quick to take advantage of the situation. "You cannot fight organized crime when you are friends with them," Socialist MP Tatyana Doncheva, one of the most vocal critics of Petkov, told us at a recent meeting, referring to widespread allegations about Petkov's ties with leaders of organized crime group SIC. According to Doncheva, Petkov, "will continue to do everything possible to block the creation of the agency, and the work of the agency, once it is launched." "The only way for the agency to be effective is the replacement of the incumbent Interior Minister," she said. Petkov's alleged ties with organized crime figures, involvement in murky deals and problems with strong alcohol were also listed in an anonymous letter recently sent to foreign diplomatic missions in Sofia. Skillfully playing sympathetic reporters, Petkov revealed the letter (though not its contents) himself, dismissing the allegations as an "absurdity." The letter, subsequently published by a Sofia-based news web site but not yet in the papers, is largely believed to come from within BSP circles. (Comment: Much of the information in it is accurate and corroborated by multiple sources; other allegations are harder to pin down.)

¶12. (C) If not quite open warfare between BSP factions, these skirmishes are nonetheless taking a toll on party cadres. Party morale took another tumble after President Parvanov's August 12 interview alleging "friendly fire" by the BSP against him in the release of the secret services dossier on him. (Petkov had been Parvanov's major ally and defender when the dossier was released.) Parvanov's statement distracted attention from the dossier issue, but also fueled speculation within the party about who the President was targeting. Stanishev came to Parvanov's defense, spraying cold water on the entire matter.

SOCIALIST HARDLINERS URGE LEFT TURN

¶13. (C) Beyond the political wrangling, there is also an internal policy dispute within BSP. A hardline faction, "Left within the BSP," accuses the BSP leadership of dragging the party to the right. Led by Parliament Legal Committee Chairman Yanaki Stoilov, this faction asserts that the

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Socialist-led government has pursued reformist economic policies that do not represent the core values shared by the

BSP electorate. (It takes aim at the 10 percent corporate tax enacted last year and the recently proposed 10 percent flat personal income tax.) The group, which urges a "left turn" in economic policies and a return to orthodox socialist values, suffered a bitter defeat at the June party congress which backed Stanishev's course by an overwhelming majority. The faction was also partly muted by the government's recent decision for a second 10-percent pension increase this year, which will come into force in October (just in time for local elections). Its noisy actions notwithstanding, this faction has limited political influence in the BSP, and lacks organizational powers and or funding. But while it does not threaten Stanishev's leadership, its vocal opposition to government policies could discourage core BSP voters, whom the party is now struggling to retain, from turning out in the October elections.

BORISSOV'S PARTY TOPS POLLS AS SOCIALIST SLIDE

¶14. (C) As the Socialists thrash, the new party of Sofia's charismatic but controversial mayor Boiko Borissov gains strength. Launched last December, GERB has gradually increased its support since the party's minimal victory in May's European Parliament elections. Since June it has edged out the BSP as the most popular political party. An August 2 survey by the reputable Alpha Research polling agency showed that GERB, advertised by its popular leader as Bulgaria's "new center-right," enjoys a nearly five percent lead ahead of the BSP. The MRF and extreme nationalist party Ataka are almost on a par at 6.9 percent and 6.7 percent respectively. The NMSS party and smaller center-right parties crawl at the bottom. But despite discontent with the current government, 60 percent of Bulgarians do not want early general elections, the survey showed.

¶15. (C) The next several months will see rising political heat as the parties marshal for local elections. GERB's victory in Sofia, where Borissov will run for re-election (and BSP cannot convince anyone to run against him yet), is perceived as a "fait accompli" by both pollsters and politicians. But GERB faces a bigger challenge in the countryside where there are many regional players and where the BSP traditionally has the best-developed organization. Analysts also note that nine months after its launch, GERB, which uses strongly populist and anti-government rhetoric, is still a personality-based group centered on its charismatic leader. The key challenge for the BSP, according to analysts and BSP insiders, is to galvanize traditional Socialist voters, many of whom feel the BSP-led government is betraying core party values. Senior Socialist officials tell us the BSP campaign would focus primarily on winning back the party base, many of whom stayed home in May. But, the open factional feuding runs counter to easy success on that score.

¶16. (C) COMMENT: BSP's troubles may be theatrical, but are not dramatic. The party is still a formidable machine and Stanishev is firmly in charge. The upcoming municipal elections will be a serious mid-term test. The growing challenge from Borisov's party, coupled with internal party issues, explains Stanishev's unwillingness to make potentially destabilizing moves ahead of the election. The cost for what local media called the "artificial peace within the BSP" was the return of Ovcharov, a move that sidesteps Stanishev's declared intentions to battle corruption. As a result of his moves, however, the PM has steadily affirmed his leadership, exceeding the shadow of his former "regents" and ending the widespread perception that he is controlled by more powerful BSP figures. The PM may make more changes in the party leadership and the government following the local elections. Even so, we believe the PM would refrain from drastic moves that could shake the coalition, as his ultimate goal is to complete a full term in office.

¶17. (C) COMMENT CONTINUED: A second electoral victory of GERB over BSP will put more pressure on coalition stability. If the traditional center-right parties and NMSS do poorly, as seems probable, Borissov will be even more encouraged to

demand early national elections, arguing the voters have rejected the ruling coalition and that he represents the true governing alternative. In short, it will be an interesting electoral season and even more interesting aftermath as the government strives for continued cohesion. We do not anticipate foreign or security policy shifts from Stanishev's government, but it will likely be more inwardly-focused on both coalition management and domestic issues.

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